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February 6, 2015

Board of Directors  
The Arc Noble County-Foundations  
506 S. Orange Street  
Albion, IN 46701

We have reviewed the audit report prepared by Baden, Gage & Schroeder, LLC, for the period July 1, 2012 to June 30, 2013. In our opinion, the audit report was prepared in accordance with the guidelines established by the State Board of Accounts. Per the Independent Public Accountants' opinion, the financial statements included in the report present fairly the financial condition of The Arc Noble County-Foundation, as of June 30, 2013, and the results of its operations for the period then ended, on the basis of accounting described in the report.

The Independent Public Accountants' report is filed with this letter in our office as a matter of public record.

*Paul D. Joyce*  
Paul D. Joyce, CPA  
State Examiner

*Financial Statements*

**The Arc Noble County -  
Foundations**

June 30, 2013 and 2012

# ***THE ARC NOBLE COUNTY - FOUNDATIONS***

***Financial Statements***  
**June 30, 2013 and 2012**

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Certified Public Accountants • Business Consultants

## **Independent Auditors' Report**

Board of Directors  
The Arc Noble County - Foundations  
Albion, Indiana

### **Report on the Financial Statements**

We have audited the accompanying financial statements of The Arc Noble County - Foundations (a nonprofit organization), which comprise the statements of financial position as of June 30, 2013 and 2012, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America. This includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Organization's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion of the effectiveness of the Organization's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant account estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Arc Noble County - Foundations, as of June 30, 2013 and 2012, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

*Baden, Gage & Schroeder, LLC*

**BADEN, GAGE & SCHROEDER, LLC**

Kendallville, Indiana  
August 22, 2013

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	<u>2013</u>	<u>2012</u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 8,607	\$ 5,365
Accrued payroll and related expenses	<u>59,819</u>	<u>51,346</u>
Total Current Liabilities	68,426	56,711
<b>NET ASSETS</b>		
Unrestricted		
Board designated for capital improvements	4,330	15,484
Undesignated	<u>272,961</u>	<u>253,923</u>
Total unrestricted	277,291	269,407
Temporarily restricted	1,836	20,806
Permanently restricted	<u>25,000</u>	<u>25,000</u>
Total Net Assets	<u>304,127</u>	<u>315,213</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 372,553</u>	<u>\$ 371,924</u>

# THE ARC NOBLE COUNTY - FOUNDATIONS

*Statement of Activities*  
Year Ended June 30, 2013

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>SUPPORT AND REVENUE</b>				
Public Support:				
United Way	\$ 2,048	\$ -	\$ -	\$ 2,048
Contributions and grants (\$3,899 in-kind)	34,569	1,836	-	36,405
County taxes	55,000	-	-	55,000
Memberships	580	-	-	580
Indiana Vocational Rehabilitation Services	33,218	-	-	33,218
Indiana Family and Social Services				
Administration	389,228	-	-	389,228
OBRA Day Services	2,067	-	-	2,067
Cooperative transportation	2,574	-	-	2,574
Indiana Department of Transportation	<u>33,234</u>	<u>-</u>	<u>-</u>	<u>33,234</u>
Total Public Support	552,518	1,836	-	552,518
Revenue:				
Subcontract fees	47,764	-	-	47,764
Interest	130	-	-	130
Miscellaneous	<u>2,897</u>	<u>-</u>	<u>-</u>	<u>2,897</u>
Total Revenue	50,791	-	-	50,791
Net Assets Released From Restrictions	<u>20,806</u>	<u>(20,806)</u>	<u>-</u>	<u>-</u>
<b>TOTAL PUBLIC SUPPORT AND REVENUE</b>	624,115	(18,970)	-	605,145
<b>EXPENSES</b>				
Program services	473,258	-	-	473,258
General and administrative	133,358	-	-	133,358
Fundraising	<u>9,615</u>	<u>-</u>	<u>-</u>	<u>9,615</u>
Total Expenses	<u>616,231</u>	<u>-</u>	<u>-</u>	<u>616,231</u>
<b>CHANGE IN NET ASSETS</b>	7,884	(18,970)	-	(11,086)
<b>NET ASSETS, BEGINNING OF YEAR</b>	<u>269,407</u>	<u>20,806</u>	<u>25,000</u>	<u>315,213</u>
<b>NET ASSETS, END OF YEAR</b>	<u>\$ 277,291</u>	<u>\$ 1,836</u>	<u>\$ 25,000</u>	<u>\$ 304,127</u>

See Notes to Financial Statements.

# THE ARC NOBLE COUNTY - FOUNDATIONS

*Statement of Activities*  
Year Ended June 30, 2012

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>SUPPORT AND REVENUE</b>				
Public Support:				
United Way	\$ 2,040	\$ -	\$ -	\$ 2,040
Contributions and grants	13,425	12,306	-	25,731
County taxes	52,000	-	-	52,000
Memberships	410	-	-	410
Indiana Vocational Rehabilitation Services	43,554	-	-	43,554
Indiana Family and Social Services				
Administration	379,217	-	-	379,217
OBRA Day Services	1,015	-	-	1,015
Cooperative transportation	3,730	-	-	3,730
Indiana Department of Transportation	<u>35,233</u>	<u>-</u>	<u>-</u>	<u>35,233</u>
Total Public Support	530,624	12,306	-	542,930
Revenue:				
Subcontract fees	49,548	-	-	49,548
Interest	323	-	-	323
Miscellaneous	<u>1,984</u>	<u>-</u>	<u>-</u>	<u>1,984</u>
Total Revenue	<u>51,855</u>	<u>-</u>	<u>-</u>	<u>51,855</u>
<b>TOTAL PUBLIC SUPPORT AND REVENUE</b>	582,479	12,306	-	594,785
<b>EXPENSES</b>				
Program services	459,435	-	-	459,435
General and administrative	128,972	-	-	128,972
Fundraising	<u>5,963</u>	<u>-</u>	<u>-</u>	<u>5,963</u>
Total Expenses	<u>594,370</u>	<u>-</u>	<u>-</u>	<u>594,370</u>
<b>CHANGE IN NET ASSETS</b>	(11,891)	12,306	-	415
<b>NET ASSETS, BEGINNING OF YEAR</b>	<u>281,298</u>	<u>8,500</u>	<u>25,000</u>	<u>314,798</u>
<b>NET ASSETS, END OF YEAR</b>	<u>\$ 269,407</u>	<u>\$ 20,806</u>	<u>\$ 25,000</u>	<u>\$ 315,213</u>

See Notes to Financial Statements.

## *THE ARC NOBLE COUNTY - FOUNDATIONS*

### *Statement of Functional Expenses* Year Ended June 30, 2013

	<u>Program Services</u>	<u>General and Administrative</u>	<u>Fundraising</u>	<u>Total</u>
Salaries and wages	\$ 273,911	\$ 87,182	\$ 5,701	\$ 366,794
Employee benefits	50,747	16,190	1,088	68,025
Payroll taxes	<u>21,918</u>	<u>6,992</u>	<u>470</u>	<u>29,380</u>
Total Personnel	346,576	110,364	7,259	464,199
Professional fees	5,548	1,430	-	6,978
Supplies	7,517	2,506	-	10,023
Telephone	3,827	2,060	-	5,887
Postage and delivery	2,388	422	-	2,810
Occupancy	17,434	6,780	-	24,214
Equipment rent and maintenance	3,638	2,002	-	5,640
Printing and publishing	270	90	-	360
Travel	600	1,217	-	1,817
Client support	39,768	-	-	39,768
Memberships and dues	6,913	1,728	-	8,641
Miscellaneous	115	74	2,356	2,545
Interest expense	-	2	-	2
C.A.R.F. expense	5,658	1,414	-	7,072
Depreciation	<u>33,006</u>	<u>3,269</u>	<u>-</u>	<u>36,275</u>
<b>TOTAL EXPENSES</b>	<b><u>\$ 473,258</u></b>	<b><u>\$ 133,358</u></b>	<b><u>\$ 9,615</u></b>	<b><u>\$ 616,231</u></b>

See Notes to Financial Statements.

## *THE ARC NOBLE COUNTY - FOUNDATIONS*

### *Statement of Functional Expenses* Year Ended June 30, 2012

	<u>Program Services</u>	<u>General and Administrative</u>	<u>Fundraising</u>	<u>Total</u>
Salaries and wages	\$ 267,537	\$ 85,083	\$ 4,625	\$ 357,245
Employee benefits	55,264	17,560	959	73,783
Payroll taxes	<u>21,852</u>	<u>6,943</u>	<u>379</u>	<u>29,174</u>
<b>Total Personnel</b>	<b>344,653</b>	<b>109,586</b>	<b>5,963</b>	<b>460,202</b>
Professional fees	4,895	1,262	-	6,157
Supplies	7,615	2,538	-	10,153
Telephone	3,835	2,065	-	5,900
Postage and delivery	3,104	548	-	3,652
Occupancy	14,502	5,639	-	20,141
Equipment rent and maintenance	1,300	715	-	2,015
Printing and publishing	185	62	-	247
Travel	923	1,873	-	2,796
Client support	46,458	-	-	46,458
Memberships and dues	7,230	1,808	-	9,038
Miscellaneous	565	362	-	927
Interest expense	-	20	-	20
Depreciation	<u>24,170</u>	<u>2,494</u>	<u>-</u>	<u>26,664</u>
<b>TOTAL EXPENSES</b>	<b><u>\$ 459,435</u></b>	<b><u>\$ 128,972</u></b>	<b><u>\$ 5,963</u></b>	<b><u>\$ 594,370</u></b>

See Notes to Financial Statements.

# THE ARC NOBLE COUNTY - FOUNDATIONS

## Statements of Cash Flows Years Ended June 30, 2013 and 2012

	2013	2012
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ (11,086)	\$ 415
Adjustments to Reconcile Change in Net Assets to Cash		
Flows Used In Operating Activities:		
Depreciation	36,275	26,664
Noncash grants received	(33,234)	(35,233)
Noncash contributions received	(3,899)	-
(Increase) Decrease in Assets:		
Grants receivable	905	(1,499)
Subcontracts receivable	808	3,911
Other receivables	(2,606)	150
Prepaid expenses	(1,774)	(1,280)
Increase (Decrease) in Liabilities:		
Accounts payable and accrued expenses	11,715	5,124
Net Cash Used In Operating Activities	(2,896)	(1,748)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Acquisitions of property and equipment	(39,176)	(1,671)
Purchase of certificates of deposit and reinvested interest	(64)	(52,271)
Deposits on equipment	(10,511)	(8,309)
Proceeds from withdrawals of certificates of deposit	29,092	75,265
Net Cash Provided By (Used In) Investing Activities	(20,659)	13,014
<b>NET INCREASE (DECREASE) IN CASH</b>	(23,555)	11,266
<b>CASH, BEGINNING OF YEAR</b>	44,819	33,553
<b>CASH, END OF YEAR</b>	\$ 21,264	\$ 44,819
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>		
Cash paid during the year for interest	\$ 2	\$ 20
<b>SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING ACTIVITIES</b>		
Transportation equipment acquired through capital grants	\$ 33,234	\$ 35,233

See Notes to Financial Statements.

# ***THE ARC NOBLE COUNTY - FOUNDATIONS***

## ***Notes to Financial Statements*** **June 30, 2013 and 2012**

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### **Note 1. Summary of Significant Accounting Policies**

#### **Organization and Nature of Activities:**

The Arc Noble County - Foundations (Foundations), is a non-profit organization serving mentally handicapped and developmentally disabled citizens throughout Noble County. Activities at Foundations include sheltered workshop training, job-seeking and job-keeping skills training, job placement and job coaching, habilitation training, social services and counseling and a recreation program.

#### **Basis of Accounting:**

The financial statements of Foundations have been prepared on the accrual basis of accounting and, accordingly, reflect all significant receivables, payables, and other liabilities.

#### **Use of Estimates:**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

#### **Basis of Presentation:**

The Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. Contributions and the related net assets are classified based on the existence or absence of donor-imposed restrictions, as follows:

*Unrestricted* net assets include those net assets whose use is not restricted by donor-imposed stipulations even though their use may be limited in other respects such as by contract or board designation.

*Temporarily restricted* net assets include contributions restricted by the donor for specific purposes or time periods. When a purpose restriction is accomplished or a time restriction ends, temporarily restricted net assets are released to unrestricted net assets.

*Permanently restricted* net assets include contributions that donors have restricted in perpetuity. The investment return is available to support operations.

# ***THE ARC NOBLE COUNTY - FOUNDATIONS***

***Notes to Financial Statements (Continued)***  
**June 30, 2013 and 2012**

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**Note 1. Summary of Significant Accounting Policies (Continued)**

**Public Support and Revenue:**

Contributions are recorded at the time an unconditional promise to give is made. All contributions are generally available for unrestricted use in the year received unless specifically restricted by the donor. Grants and other contributions of cash are reported as temporarily restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. If a restriction is fulfilled in the same time period in which the contribution is received, the contribution is reported as unrestricted.

Revenue from government agencies is recognized in the period the qualifying services are performed.

Revenue from subcontract work performed in the workshop (trainee services) is recognized upon shipment of the products.

**Receivables:**

Foundations grants credit to customers to whom it sells trainee services. These customers consist of local area private businesses.

Receivables are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a provision for bad debt expense and an adjustment to a valuation allowance based on its assessment of the current status of individual accounts. The estimated losses are based on historical collection experience coupled with management's evaluation and review of the current aging status of the existing receivables, trends in historical bad debt experience and economic conditions. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable. The allowance is increased by a provision for bad debt expense, which is charged to expense and reduced by charge-offs, net of recoveries. No allowance was recorded as of June 30, 2013 and 2012, because the amount was not deemed material to the financial statements taken as a whole.

**Property and Equipment:**

Property and equipment is stated at cost, if purchased, and at fair market value, if donated. Expenditures for property and equipment, that exceed \$1,000, are generally capitalized. Normal repairs and maintenance are expensed. The cost of assets retired, or otherwise disposed of, and the related accumulated depreciation are eliminated from the accounts and the resulting gain or loss is reflected in the statement of activities.

# ***THE ARC NOBLE COUNTY - FOUNDATIONS***

***Notes to Financial Statements (Continued)***  
**June 30, 2013 and 2012**

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**Note 1. Summary of Significant Accounting Policies (Continued)**

**Property and Equipment (Continued):**

Depreciation is computed on the straight-line method over the estimated useful lives of the individual assets. Depreciation on property and equipment charged to expense was \$36,275 and \$26,664 for the years ended June 30, 2013 and 2012, respectively.

**Expense Allocation:**

The costs of providing various programs and other activities have been summarized on a functional basis in the statements of activities and in the statements of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

**Income Tax Status:**

Foundations is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. Furthermore, Foundations has been determined not to be a private foundation under Internal Revenue Code Section 509(a).

The accounting standard which provides guidance on accounting for uncertainty in income taxes addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under this guidance, the Organization may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by taxing authorities, based on the technical merits of the position. Examples of tax positions include the tax-exempt status of the Organization and various positions related to the potential sources of unrelated business taxable income. The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than 50 percent likelihood of being realized upon ultimate settlement. There were no unrecognized tax benefits identified or recorded as liabilities for the years ended June 30, 2013 and 2012.

**Subsequent Events:**

Management of Foundations has evaluated events and transactions for possible recognition or disclosure through August 22, 2013, the date the financial statements were available to be issued.

# *THE ARC NOBLE COUNTY - FOUNDATIONS*

*Notes to Financial Statements (Continued)*  
 June 30, 2013 and 2012

**Note 2. Grants Receivable**

Grants receivable as of June 30, 2013 and 2012, are as follows:

	<u>2013</u>	<u>2012</u>
Indiana Family and Social Services Administration	\$ 31,805	\$ 30,711
Indiana Vocational Rehabilitation Services	6,260	8,984
OBRA Day Services	1,204	177
Cooperative transportation	-	302
	<u>\$ 39,269</u>	<u>\$ 40,174</u>

Foundations believes that grants receivable are fully collectible. Therefore, no allowance for bad debts is considered necessary.

**Note 3. Property and Equipment**

A summary of the major classes of property and equipment along with the related accumulated depreciation is presented below:

	<u>Estimated Useful Lives</u>	<u>2013</u>	<u>2012</u>
Land		\$ 11,875	\$ 11,875
Building and improvements	10 - 40 years	379,141	349,356
Shop and office equipment	5 - 10 years	45,100	24,292
Kitchen equipment	10 years	300	300
Transportation equipment	5 years	296,250	254,707
Telephone equipment	10 years	7,770	7,770
		740,436	648,300
Less: Accumulated depreciation		477,371	446,078
		<u>\$ 263,065</u>	<u>\$ 202,222</u>

**Note 4. Transportation Equipment Titles**

Titles for transportation equipment purchased with Indiana Department of Transportation (INDOT), Public Transit Section, grants are held by INDOT until the equipment reaches a certain age or mileage, then the title passes to Foundations.

Foundations has been notified of a grant from INDOT that will provide a new van valued at approximately \$43,500. The grant is to cover 80% of the cost of the new van (approximately \$34,800) with the remaining 20% to be paid by Foundations. A deposit of \$8,716 was made by Foundations during the year.

# THE ARC NOBLE COUNTY - FOUNDATIONS

## Notes to Financial Statements (Continued)

June 30, 2013 and 2012

### Note 5. Beneficial Interest in Perpetual Trust

Foundations is a beneficiary of a permanent endowment fund held by a third party trustee. Under the terms of the agreement, Foundations receives 20% of the trust's annual earnings. Although Foundations has no control over the administration or investment of the funds held in the trust, the estimated fair value of the trust is recorded as a permanently restricted asset at the present value of the future estimated payments, calculated using a discount rate of 5%. The estimated fair value of the beneficial interest in the perpetual trust amounted to \$25,000 at June 30, 2013 and 2012. Distributions received were \$635 in 2013 and \$610 in 2012 and were recorded as unrestricted support based on the donor's instructions. Increases or decreases in the fair value of the trust assets are recorded in the statements of activities as changes in permanently restricted net assets.

### Note 6. Line of Credit

Foundations has a line of credit agreement with Community State Bank which allows advances on an aggregate principal amount not to exceed \$50,000. The agreement requires quarterly interest payments at 6%, and is secured by real estate. The agreement matures on April 30, 2014. The outstanding balance as of June 30, 2013 and 2012, was \$0.

### Note 7. Temporarily Restricted Net Assets

Temporarily restricted net assets at June 30, 2013 and 2012, consisted of:

	<u>2013</u>	<u>2012</u>
Software purchase (purpose restriction)	\$ -	\$ 7,500
Remodeling (purpose restriction)	1,500	12,000
Miscellaneous (purpose restrictions)	<u>336</u>	<u>1,306</u>
	<u>\$ 1,836</u>	<u>\$ 20,806</u>

Net assets were released by satisfying donors' restrictions as follows:

	<u>2013</u>	<u>2012</u>
Software purchase	\$ 7,500	\$ -
Remodeling	12,000	-
Miscellaneous	<u>1,306</u>	<u>-</u>
	<u>\$ 20,806</u>	<u>\$ -</u>

# ***THE ARC NOBLE COUNTY - FOUNDATIONS***

## ***Notes to Financial Statements (Continued)***

**June 30, 2013 and 2012**

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**Note 8. Concentrations**

Foundations services were concentrated in Noble County, Indiana, during the years ended June 30, 2013 and 2012. Approximately 64% of Foundations support and revenue was provided from grants received from the Indiana Family and Social Services Administration during the years ending June 30, 2013 and 2012.

**Note 9. Commitments**

Foundations has committed to purchase software totaling approximately \$25,000, of which payments totaling \$22,495 have been made during the years ended June 30, 2013 and 2011. Phase I of the software has been implemented and Phase II of the software is scheduled to be implemented and the remaining amount due will be paid during the year ended June 30, 2014. Therefore, the purchase commitment outstanding at June 30, 2013, is approximately \$2,500.

**Note 10. Related Party Transaction**

A related party completed the remodel of restrooms for approximately \$27,000. An in-kind contribution of \$3,899 was recognized related to the transaction.